

**TESTIMONY OF
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**ON BEHALF OF
OKLAHOMA FARMERS UNION**

BEFORE THE

**U.S. HOUSE OF REPRESENTATIVES
AGRICULTURE COMMITTEE
SUBCOMMITTEE ON CONSERVATION,
CREDIT, RURAL DEVELOPMENT AND
RESEARCH**

**REDLANDS COMMUNITY COLLEGE
EL RENO, OKLAHOMA**

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Chairman Lucas, Chairman Goodlatte and Members of the Committee. Thank you for coming to Oklahoma for state producers to have the opportunity to testify with respect to policy considerations for the 2007 Farm Bill debate. We wish you could have seen our state in a different light with our ponds full, plenty of forage, hay in the barn, cattle in the pastures and grain bins to capacity. Unfortunately, the drought which has plagued us for more than a year continues to be an issue for state producers.

Good morning. I am Scott Blubaugh, a fifth generation farmer from the Tonkawa area. Both sides of my family homesteaded in the territories as they were being opened for settlement. I live on the farm that my family homesteaded during the opening of the Cherokee Strip in the home built by my grandfather. My operation consists of leased and owned land totaling 1,500 acres where I grow wheat, soybeans, grain sorghum (milo), corn and alfalfa and raise cattle. To underwrite our operation, I also do local custom harvesting and my wife and I own a local Oklahoma Farmers Union Mutual Insurance Agency.

As a member of the Oklahoma Farmers Union, a part of the American Farmers and Ranchers family of companies, my activities have allowed me many opportunities. One of those opportunities is to serve on the board of directors of the Oklahoma Sustainable Energy LLC where our objective is to construct the first commercial ethanol plant in Enid, Oklahoma utilizing state grains – primarily grain sorghum to enhance producers' incomes and to help offset our dependence upon foreign oil.

Extend the 2002 Farm Bill

First I will address the heart of the farm bill – underwriting the American food supply system for not only the benefit of farmers and ranchers but for the consumer. The latter perhaps benefits more than the producer from any bill that could be crafted. Yet, so many times agriculture takes the brunt of criticism.

Rural America's economy has deteriorated at a rapid pace as a result of skyrocketing energy expenses, low commodity prices, continued budget cuts and weather-related disasters. Cutting advance AMTA advance payments to 22 percent as part of the congressional budget deal could not come at a worse time for state producers already burdened as a result of wildfires and drought and little to no crop production. The word on this action with respect to these anticipated payments and which usually comes in December or January is now reaching the desks of local bankers. This is creating a great anxiety with the banking community. One of the busiest state agricultural bankruptcy attorney reports record numbers of producers that are lining up at his door to take steps to restructure in recent weeks.

World Trade Organization talks have stalled. A renewal of negotiations could use agriculture as a bargaining chip in the overall negotiations and apply new limits and disciplines for future domestic agricultural policies. We should not defer to WTO in any way to write our domestic farm policy. It is Congress' responsibility to write a policy good for U.S. producers and to find a WTO legal way to get funding to producers.

Extending the current farm policy may provide U.S. negotiators with incentive to bring back the very best deal possible for American agriculture.

Our trade deficit continues to worsen. Agriculture exports have always been the bright spot to offset this number. This year we will likely import more agriculture products than we export. The U.S. agriculture trade balance has shrunk from a surplus of \$27 billion in 1996 to \$3 billion today. Domestic cattle markets have done well in recent years by borders being protected and beef being exported. However, grain producers need the same opportunities. Our government is trading grain farmers away.

We should negotiate at global trade sessions to maximize market access at the minimum amount of cuts to our existing programs. Insist on guarantees, which substantially increase market admittance on any individual commodity in both developed and developing nations. We must make certain that all countries stop the manipulation of shifting various agricultural products and commodities to the “sensitive product” categories. “Sensitive products” are simply a protection method for avoiding tariff reductions and subsidy cuts for some rather than all. Define the terms of agreement and call for all members to adhere to the policy. As additional trade leverage, strongly endorse and require at world summits, the absolute necessity for increased health standards for all agricultural products. U.S. offers far superior quality production at increased costs over the standards of other countries and not given credit for our excellence at the trade table.

The administration and Congress continue to cut funding from farm bill programs through the annual appropriations and budget reconciliation process while the farm bill has shown savings of more than \$15 billion in the first three years of enactment.

Oklahoma Farmers Union and producers just like me continue to oppose any dollar reduction of budgeted items in the 2007 Farm Bill over the previous bill. Our basic and fundamental position has always been to support the stability and continuation of the family farm. Our major points are to resist any budget cuts and give moderate consideration to minor lateral adjustments within the appropriations of the agricultural funds.

Extending the Farm Security and Investment Act of 2002 will ensure continuation of our economic safety net and other vital farm bill programs and allow time to improve on the current law and ideas being considered.

Permanent Disaster Authority

The farmers and ranchers of Oklahoma as well as producers from across the country must have protection from natural catastrophes. The current global market is unforgiving when a natural occurrence causes the producer to lose the momentum of supplying the demand. The contagious results of a drought disaster can impact the producer far beyond the year of occurrence. The global market views the interruption of supply as a grower flaw and leaves little chance for the producer to re-enter the competition. The economy of

global market conditions must be stabilized by protective programs and minimize the interruption by drought disasters.

The 2002 Farm Bill was not however designed to provide protection or mitigate weather-related losses. Current risk management programs are also insufficient in addressing production and quality losses.

Farmers and ranchers across the U.S. have experienced overwhelming losses from weather-related disasters in 2005 and 2006. More than 50 percent of all U.S. counties have been declared primary or contiguous disaster areas by USDA in 2006. A year ago, nearly 80 percent of all U.S. counties were declared weather-related disaster areas by either secretarial or presidential declarations.

Oklahoma has been impacted by both drought and wildfires. The statewide drought started in the fall and winter of 2005. Because of the drought conditions, producers have had little to no wheat pasture for stockers this past fall and winter. Cowherds have been reduced or sold completely because of inadequate water, grass and hay supplies. The state wheat crop yielded 45 percent of its normal level, the lowest since the 1960's. Wheat farmers typically harvest 70 percent of their land, leaving the rest for cattle. This year they harvested 56 percent.

The cost of installing new wells, rural water connections and pumping or paying monthly charges for water are all additional costs to producers. Without grass or hay producers have purchased rations with high fiber content, at additional expense, to help their herds survive. To avoid the expense of sack feed and because of volume feeding, producers are acquiring overhead bins and truck feeder delivery systems to adequately feed their herds. Input providers are being impacted as producers are reluctant to apply fertilizer unsure they will have a crop established. Grain elevators are losing revenue usually received from grain storage due to the low-yielding crop.

Climatologists say it's the worst drought in a half-century for the state. The droughts of the 30's and 50's were similar in that they were a series of short, intermittent-term droughts, which together characterize a decade of limited rainfall. Oklahoma set a record for the hottest first six months of a year from January through June, making 2006 the warmest start to any year since records begin in 1895. These numbers do not include the triple-digit temperatures of July and August.

Solutions? The next farm bill authority should include a permanent disaster program to assist producers during times of natural disasters without relying upon yearly *ad hoc* assistance or the political climate in Washington. Such authority existed in the 1980's utilizing the Commodity Credit Corporation fund which Congress retrospectively refunded annually based on the expenses incurred during the year. Assistance to producers was immediate. In writing a new farm bill Congress must return to standing authority that allows funding to be available immediately for emergency assistance. Year around risk management protection programs for natural occurrences must be put into place in the new authorization. Minimum standards of rainfall could be established in

states in order to have continuous implementation of expanding Conservation Reserve Program acres eligible for emergency haying and grazing for livestock producers.

A short term solution to this issue is to pass immediate emergency disaster assistance that is available immediately. Since nothing else is on the table, we would encourage you to pass the Senate Appropriations Committee-approved FY2007 Agriculture appropriations bill, which includes \$3.9 billion for emergency agricultural disaster relief. Legislation has been introduced for a \$3.3 billion package in the House but nothing has been put into an appropriations measure to date. The need is much greater than either of these amounts when both 2005 and 2006 losses are considered. Funding must come quickly and not 1½ years after the money is appropriated as was done in the last appropriations for crop and livestock farmers.

It is important to point out that under the current farm bill countercyclical payments have basically been a non-occurrence for wheat producers in Oklahoma. So, the recently accelerated release of countercyclical payments did not assist wheat producers since there was not a payment to be made.

The new bill should reform risk management tools in a manner that is structured to respond to severe multi-year weather-related disasters. Provide coverage for forage and specialty crops; indemnify livestock losses; and cover quality and market losses resulting from forced sales.

Fuels From the Farm

America's addiction to foreign oil is threatening our national security. Foreign dependency will accelerate the emerging U.S. renewable energy sector and our goal of developing while growing America's energy independence. We should make use of renewable fuels which will increase domestic demand for surplus farm commodities, lower federal outlays of farm subsidies, improve the environment, and decrease American reliance on foreign oil. Agriculture and renewable energy is the key to diversifying our energy markets and creating new economic opportunity for rural America

Extraordinary rising costs of gasoline, diesel fuel, natural gas and petroleum-derived input products, such as fertilizer, chemicals and propane, are adding yet another economic burden to rural America. Farmers and ranchers are unable to pass along these increased production costs as other businesses can, because producers do not set the prices for their commodities.

Oklahoma Farmers Union is doing its' part to assist with alternative fuels through affiliated Oklahoma Sustainable Energy LLC (OSE). OSE, in a joint venture with Chaparral Energy, will construct a 55-million gallon per year ethanol plant to be located in Enid. The plant will employ 30-35 employees and operate at over 96% efficiency 350 days per year. The facility will convert grain sorghum and corn into fuel-grade ethanol, distillers grain and carbon dioxide. The plant will annually convert approximately 20 million bushels of grain into approximately 55 million gallons of fuel-grade ethanol,

approximately 200,000 tons of distiller grains and approximately 154,000 tons of raw carbon dioxide gas. To raise the necessary equity capital for its' portion of the plant, OSE is currently conducting an equity drive offering up to \$14,000,000 limited liability company units for up to 499 investors.

Short term, Congress should provide assistance to farmers and ranchers to mitigate the impact of higher energy prices and declining commodity prices.

Long term, Congress should expand and accelerate Renewable Fuels Standard (RFS) for ethanol, establish RFS for biodiesel; extend and create renewable energy production tax credits for community-based projects; create a farm-stored Strategic Renewable Energy/Biofuels Reserve, dedicated to biofuels and energy feedstocks storage and production; expand biofuels distribution system.

Conservation

One of the early programs that came out of the Dust Bowl era, was the Upstream Flood Control Program, PL-534 and PL-566. The structures these programs have built, have provided flood control, erosion control, wildlife habitat, fishing, irrigation, water for cities, communities and rural water districts, along with many other benefits. The PL-566 program needs reestablished and fully funded to continue this much needed infrastructure. The original structures are at the end of their constructive life. Many of these structures have served their purpose, but continue providing benefits. They need to be rehabilitated. Congressman Frank Lucas established the Upstream Flood Control Rehabilitation Program several years ago. This program has effectively rehabilitated some of these aging structures. However, much more needs to be done. We cannot afford to let this important infrastructure fall into disrepair, like the levees in New Orleans. It will cost less to repair these sites than to build new ones.

Cost share programs have been the base of the conservation effort in this state and across the nation. Programs such as the Great Plains Program, Agriculture Conservation Program (ACP), Conservation Reserve Program (CRP), Environmental Quality Incentive Program (EQIP), Wildlife Habitat Incentive Program (WHIP), Conservation Reserve Enhancement Program (CREP) and Conservation Security Program (CSP) are some of the numerous programs offering landowners a VOLUNTARY hand in managing their land. These programs MUST continue or be reestablished to assist in this conservation effort. Some talk about a regulatory approach such as the past experience with wetlands; others talk about private industry paying for the programs, such as the current Oklahoma Attorney General's lawsuit; but programs that are voluntary in nature have established more wildlife habitat, erosion control, grassland plantings, and wetland protection than any regulatory or lawsuit could ever do.

Farmers and Ranchers must have income from their land. Conservation practices cost money to establish and maintain. Agriculture producers cannot sink dollars in a practice that do not have a pay back over a few years. A combination of EQIP and CSP has proved to be effective, yet not create an economic hardship to the agriculturist. CSP was designed to provide a level of income to producers following good conservation on their

land. CSP has not been fully funded; implementation has been spotty. The intent of Congress was to provide the needed assistance to producers who want to continue proper care of soil and water. Oklahoma has the highest level of CSP participation of any state because of the strong partnership over the last five to six years. Funding EQIP and CSP must be a top priority in writing the next farm bill.

Oklahoma's cooperative conservation partners have worked together on the key issues of water quality and quantity. Western Oklahoma has experienced numerous years of drought cities have rationed water and producers using irrigation have found more efficient methods of water application. Eastern Oklahoma has experienced drought and water quality problems for cities, rural residences and agriculture. The partners of local conservation districts, landowners, state and federal monies have shown a 39 percent improvement of water quality in watersheds that best management practices have been used. EPA 319 funds have been used for implementation and monitoring watersheds that have plans approved. These partnerships have improved the environment and the economics of the area.

Oklahoma has the largest number of federally recognized Native American Tribes in the nation. The relations with the partners and tribes have improved greatly over the last five years. They bring a wealth of caring for the land to the table. We have discussed the issues of tribal water and air quality standards within the partnership. Our concern is to have consistency in standards, whether in a watershed or an area of the state. The tribes have consistently worked with NRCS to establish excellent conservation programs and recognized those producers that excel in caring for our natural resources.

General Trade Relations

History has proven that free trade benefits have been largely over-estimated based on the outcome of virtually every proposed trade agreement. The promise usually far exceeds the performance. Agreements should provide for fair and profitable trade for the producer. Everyone seems to benefit except for guy on the land. Agreements must address all factors of trade including environmental standards equity, health and labor standards equity and currency manipulation.

The trade balance of the United States has shrunk from a surplus of \$27 billion in 1996 to \$3 billion today. Free trade agreements such as the Central American, Australian and Oman agreements did not address persistent global overproduction capacity, ensure net U.S. agricultural export expansion or increased market share and did not seek coordination and enforcement of competition policies. Trade promotion authority forfeits Congress' rights to amend U.S. trade legislation.

The relationship with Japan has been nothing less than on again off again. A recent and singular error by Atlantic Veal and Lamb reported "We sincerely regret that we shipped product not approved for export to Japan," said company's president, Philip Peerless. The USDA Findings and Actions Report came to this conclusion, "The investigation revealed this incident was the result of a failure on the part of the exporter and USDA personnel to know which products were eligible for shipment to Japan. By agreement with the

Government of Japan, no vertebral column was to be shipped. Vertebral column was shipped in one (1) box labeled Hotel Rack and two (2) boxes labeled Trimmed Loin. While some evidence and history of error has occurred, the incidence of 3 boxes is hardly a true representation of the overwhelming **volume** and **quality** of previous proven shipments. Based on reports of the U.S. Cattle and Beef Industry prepared by Cattle-Fax in Oct of 2004, "U.S. cattle producers were the second largest supplier of Japanese beef and beef variety meat imports in 2002, supplying over half (51%) of the beef products imported by Japan in 2003. Japan's foot dragging attitude may be based on unfair trade tactics due to Australia's market surge during our absence. At best, the U.S. Meat Export Federation concludes," Australia has had three years to establish a now 80% share of the Japanese beef import market. That country was the top exporter of beef to Japan last year, exporting 440,304 metric tons, worth \$2.1 billion (U.S.)." While we hardly blame those countries who seek market opportunities, we question the validity of those products being as good or equivalent to our worst market shipments.

All foreign buyers need specific rules of engagement of trade negotiations for beef. We should make sure the parameters of sales is understood and once agreed upon would include penalties for deviations or violations. Any country, including Japan's erratic behavior, sets uncomfortable precedents of acceptable behavior for economic trade techniques for others such as China and Korea. The interruption of a U.S. billion dollar market export should not be established by three (3) cases of beef products. The economics of market trade cannot be the scapegoat of senseless world political statements.

We should stop the association of beef trade with any country with a history of unchecked BSE. The U.S. relationship with Canada's co-mingled beef creates suspicions and doubt of the overall quality of U.S. beef shipments with foreign consumers. We must be committed to the necessary inspection personnel and equipment for compliance according to the trade agreements. It is a priority to create or seek out an immediate replacement for the beef production volume, which is normally reserved for countries that exaggerate conditions and create gaps in flow of beef exports. The focus on the American beef industry should be evaluated on the basis of a "TECHNICAL VIOLATION AND NOT A BEEF SAFETY ISSUE."

Congress should require the necessary enforcement for the 34 approved plants to continue to ship quality BSE free products. Agree that all U.S. beef shipped for Japan must come from cattle less than 20 months old with no brain or spinal material included. Make sure Japan embraces a gradual increase for the next two violation free years the change for the age increment to include animals of 24 months and under in age. Necessitate a specific agreement for the insurance of sale and shipment of American beef to Japan including provisions for the removal of diseased beef without interrupting continuous shipments.

Rural Development/Value-Added Grants

We want to thank you Congressman Lucas for your assistance in the Value Added Developments Grants through USDA Rural Development. Two of these grants will result in an ethanol plant in Enid and an oilseed processing plant in western Oklahoma.

The new Farm Bill must include renewed authorization language and funding for the Value Added Development Grants. These grants help lay the foundation for small business development in rural Oklahoma and the nation. Projects resulting from these grants add value to raw agriculture commodities creating jobs and additional cash flow to rural citizens. These grants have given hope to agriculture producers who have weathered drought and tough economic times in the state. They help foster new ideas and business development in parts of the state that need a boost.

New Opportunities

In this bill we must identify the unmet needs of agriculture. Recognize the requirements in conservation, environmental performance, research and discovery. Increase the production of bio-fuel commodities for their use in food, fuel, industrial uses and exports. The use of bio-fuels production for ethanol produces a considerable “cake” by-product for animal feed groups. Increased production provides more biofuels and animal food while decreases the practice of un-needed conservation programs. Recognize and project the highest global demand of agricultural products for the next ten years and prepare the agricultural industry to supply the demand. Every effort should be taken to ramp up agriculture science with monetary incentives to develop higher product yields with value. Initiate an aggressive use of the advance technology of the United States agriculture products to provide a decisive edge in the global market. Better utilize the dominant and superior telecommunication capabilities of the U.S. to enhance the demand from foreign markets. Aggressively develop a marketing program for American agricultural products matched to targeted areas

Thank you for coming to Oklahoma and please carry our message back to your colleagues in Washington as you craft the next farm bill which we hope would be an extension of the basic commodity program and slightly adjusted in other areas.